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C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 001927

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TAGS: [ENRG](#) [ECON](#) [EINV](#) [IR](#) [AE](#)

SUBJECT: UAE ENERGY MINISTER ON GUARDIAN INDUSTRIES AND
ELECTRICITY SHORTAGES

REF: A. ABU DHABI 1922

[1](#)B. NOV 2 MERMOUD SISON E-MAIL

[1](#)C. ABU DHABI 1021

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Classified By: Ambassador Michele J. Sison for reasons 1.4 (b & d).

[1](#)1. (SBU) Summary: On November 25, Ambassador pressed UAE Energy Minister Mohammed bin Dha'en Al-Hamili to try and resolve a critical lack of electricity for Michigan-based Guardian Industry's USD 150 million investment in Ras Al-Khaimah. Al-Hamili expressed his sympathy, but explained that development in the northern emirates had outstripped the Federal Electricity and Water Authority's (FEWA) power generation capacity and that the UAE cabinet had instructed FEWA to give priority to residential customers. He expressed his belief that Guardian should work with the Emirate of Ras Al-Khaimah to try and resolve the problem, suggesting that Ras Al-Khaimah provide some of its (limited) natural gas directly to a power plant for the factory. He noted that the UAE electrical grid would be completed in April 2008, which should help resolve some of the capacity problems. With regard to the dispute between Iran and Crescent Petroleum/Dana Gas, he pled ignorance. Embassy will continue its efforts on behalf of Guardian, but the overall electricity constraints will make this a hard sell. End Summary.

Guardian Energy

[1](#)2. (SBU) Ambassador, accompanied by Econchief, met with UAE Energy Minister Al-Hamili (FEWA's Chairman of the Board) to seek his assistance in resolving Guardian Industries problems with obtaining electricity for its float glass plant in Ras Al-Khaimah. Ambassador explained the situation to Al-Hamili, stressing that problem sent a chilling message to potential U.S. investors. The Ambassador noted the upcoming December 6 U.S. - UAE Business Council board meeting in Abu Dhabi and the December 4 U.S. - GCC Investment Forum in Manama, which UAE Economy Minister Sheikha Lubna Al-Qasimi will attend. The Guardian issue would cast a pall on both events, Ambassador suggested. Al-Hamili expressed his sympathy, but stated that FEWA, which provided electricity to the northern emirates, did not have the electricity to provide to the Guardian

plant. (Note: FEWA is responsible for providing power to the northern emirates. The emirates of Abu Dhabi and Dubai have their own power generation capacity and do not rely on FEWA. The emirate of Sharjah also has its own generation capacity, but also relies on FEWA-generated power. End Note.)

13. (SBU) Guardian industries, along with Saudi joint venture partners (National Company for Glass Industries and Al-Zamil Group) invested \$150 million in constructing a plant producing 700 tons of glass per day and employing 300 people in the Emirate of Ras Al-Khaimah. Guardian negotiated its investment with the Crown Prince of Ras Al-Khaimah and began construction early in 2006. The plant started operations in September 2007, using back-up diesel generators. Guardian believed that it had a commitment from FEWA to provide electricity to the plant, but apparently did not have a written FEWA commitment. It paid FEWA a guarantee/deposit of USD 3.3 million in December 2006, when it filed its application for electricity supply. On October 15, FEWA's General Manager contacted Guardian to inform it that it would not be able to meet Guardian's demand for power and only had the power and water generation capacity to meet the demand for "normal growth." (Note: Ras Al-Khaimah has the fourth largest economy of the seven UAE emirates, about two percent of the UAE's GDP. End Note.)

14. (SBU) Guardian contacted the Embassy on October 22 after receiving the letter from FEWA. On October 25, FCS arranged for a meeting between Guardian officials and the Abu Dhabi Water and Electricity Authority (ADWEA -the largest provider of electricity in the UAE) to discuss the issue. The ADWEA official stated that he was aware of power problems in Ras Al-Khaimah, but had no knowledge of the specific project. On October 28, CG Dubai discussed the problem with Ras Al-Khaimah Crown Prince Sheikh Saud bin Saqr Al-Qasimi. Sheikh Saud stated his unhappiness with FEWA "changing its commitment so late in the day." He expressed his interest in

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USG assistance in resolving the issue and noted that the problems sent the wrong message to potential investors in the UAE. He added that Ras Al-Khaimah had no choice but to procure additional local generators to meet the needs of the plant, but that this process would take at least three months. Ambassador subsequently raised the issue with Abu Dhabi Crown Prince Sheikh Mohammed bin Zayed Al-Nahyan and requested a meeting with Minister of Energy Al-Hamili at the Crown Prince's suggestion.

15. (SBU) Al-Hamili expressed his sympathy and his belief that that the UAE should honor its commitments to investors, but stressed that FEWA did not have the power available. He noted that the emirate of Ras Al-Khaimah received natural gas directly from the emirate of Umm Al-Qaiwain and suggested that this might serve as an alternate source of gas. He said that he would also speak directly with the CEO of FEWA, but stated his reluctance to intervene. This was a problem that needed to be worked out between FEWA, Ras Al-Khaimah, and Guardian, he noted, adding that Ras Al-Khaimah also had a representative on FEWA's board. Companies invested in the UAE to take advantage of cheap sources of power. Unfortunately, Ras Al-Khaimah did not have any power.

FEWA's Power Generation Problems

16. (SBU) FEWA generated 1,100 MW of power with its own plants and received another 500 MW from Abu Dhabi, via a power plant in the emirate of Fujairah. This was not enough to meet demand. Al-Hamili explained that two weeks earlier the UAE cabinet had responded to FEWA's power shortages by releasing FEWA from any responsibility for providing power to the new "mega projects." The cabinet stated that FEWA's first responsibility was to individuals and housing. If it had power remaining, it could provide it to individual apartment

developments, but not "colonies" (i.e., large scale residential developments). FEWA would not be responsible for providing electricity to companies.

¶17. (C) Al-Hamili complained that FEWA tried to project growth in demand, but that the northern emirates (particularly Ras Al-Khaimah and Sharjah) were not providing accurate development data. FEWA had projected 8% electricity demand growth, but this would not meet all the new projects being planned and built. He noted that development in the northern emirates was proceeding at a phenomenal rate, citing the Emirate of Um Al-Qaiwain as an example. The population of that emirate was 40,000 people, he noted, but Emaar (a property developer) was building a 300,000 person housing development. "Who will provide power?" he asked. He asserted that Sheikh Saud was putting heavy pressure on the electrical system with his development projects. Looking forward, he said the UAE's electrical grid would be completed in April 2008 and that FEWA would get an additional 350 MW from Abu Dhabi and would bring a new 200 MW unit on line, which would relieve some pressures.

¶18. (SBU) Al-Hamili further explained that he would prefer to sell to commercial customers, because it would cut FEWA's losses. It cost FEWA between 80-90 fils to produce a KW of electricity (around 25 cents). It sold electricity to corporate customers at 20 fils (5 cents) per KW and to local residential customers at 7 fils (2 cents). It bought subsidized electricity from Abu Dhabi at 18 fils per KW.

¶19. (C) In response to Ambassador's question about the Crescent Petroleum/Dana Gas plan to purchase natural gas from Iran, he pled ignorance. He noted that he was supposed to get natural gas from Crescent Petroleum in 2006, but had not received any. He stressed that his contract with Crescent did not mention Iran as the source of gas and that how Crescent got its gas was "none of my business" and that the gas could be sourced from Sharjah's Mubarak field for all he knew.

¶10. (C) Comment: As noted ref c, rapid development in the UAE is outstripping power generation capacity. The lack of a UAE-wide electrical grid exacerbates the problem. It also means that the gas that Iran was supposed to provide to Dana Gas remains potentially attractive to other emirates. Embassy and Consulate General will continue our efforts on

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behalf of Guardian, but the overall electricity constraints will make this a hard sell. Post has shared the information gained during the call with Minister Al-Hamili with local Guardian representative and with Guardian's Washington, D.C. - based legal counsel (Akin Gump). End Comment.
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